

Hong Kong Budget 2021: Green Finance, Investment Funds, Financial Services & Fintech

Background

On 24 February 2021, the Financial Secretary of the Hong Kong Special Administrative Region, Mr. Paul Chan Mo-po, delivered the 2021/22 budget speech (**Budget**). In his speech, the Financial Secretary emphasised that Hong Kong has always been an offshore financing centre for Mainland enterprises and an important conduit for international capital to enter the Mainland market, and that the capital markets of Hong Kong and the Mainland can complement and interact positively with each other. The Financial Secretary stated that there will be a joint working group set up by the Financial Services and the Treasury Bureau, Hong Kong Monetary Authority (**HKMA**), Securities and Futures Commission (**SFC**) and the Insurance Authority to explore how Hong Kong can complement the economic and financial development of Mainland China and meet the needs of international investors while enhancing Hong Kong's competitiveness as an international financial centre. The working group will set out the development blueprint and put forward concrete proposals and measures for engagement with the Central Authorities to secure their support.

We set out below key measures in the Budget targeted to further spur the development of green finance and expand the investment funds and financial services markets in Hong Kong.

Green and sustainable finance and green city

The Financial Secretary restates the Government's target to achieve carbon neutrality before 2050, as previously announced by Hong Kong Chief Executive Carrie Lam, and further added that Hong Kong's Climate Action Plan¹ will be updated later this year to set out more proactive strategies and measures to reduce carbon emissions.

In light of the 2050 carbon neutrality target, together with the financial sector and relevant stakeholders, the Government will take forward the Strategic Plan² announced at the end of last year by the Green and Sustainable Finance Cross-Agency Steering Group. The Strategic Plan sets out key focus areas, which include strengthening climate-related financial risk management and promoting the flow of climate-related information at all levels to facilitate risk management, capital allocation and investor protection, as well as near-term action points relating to, among other things, mandatory alignment of climate-related disclosures with TCFD³ recommendations and the aim to adopt the Common Ground Taxonomy.

¹ [Hong Kong Climate Action Plan 2030+](https://www.climateready.gov.hk/) published by the Environment Bureau (<https://www.climateready.gov.hk/>)

² Cross-Agency Steering Group Launches its Strategic Plan to Strengthen Hong Kong's Financial Ecosystem to Support a Greener and More Sustainable Future
<https://www.hkma.gov.hk/eng/news-and-media/press-releases/2020/12/20201217-4/>

³ The Task Force on Climate-related Financial Disclosures established by the Financial Stability Board (<https://www.fsb-tcfd.org/>).

Given the success of the Government Green Bond Programme⁴, the Government plans to issue green bonds regularly and expand the scale of the current Programme, doubling the borrowing ceiling of the Programme to HK\$200 billion to allow for further issuance of green bonds totalling HK\$175.5 billion within the next five years.

The Government also plans to explore issuing green bonds that involve different types of currencies, project types and issuance channels, as well as retail green bonds. Further, the existing Pilot Bond Grant Scheme and the Green Bond Grant Scheme will be consolidated into a Green and Sustainable Finance Grant Scheme which will last for 3 years, to provide subsidies for eligible bond issuers and loan borrowers to cover their expenses on bond issuance and external review services and the details of which will be announced by HKMA in due course.

Stock Connect

The Financial Secretary stated that there are plans to continuously expand the capacity of the Stock Connect, including progressive inclusion of exchange-traded funds (ETF) and other types of assets as well as expansion of the scope of eligible securities. As international investors increasingly participate in the A-share market through Stock Connect, there is a growing demand for using A-shares index futures to hedge market risk. The Financial Secretary stated that the Hong Kong Stock Exchange will accelerate the preparatory work for the launch of MSCI China A-Index Futures contract.

Real Estate Investment trusts (REITs)

In line with the Government's commitment to develop the REIT market in Hong Kong and Hong Kong's role as a premier capital raising centre, the Financial Secretary plans to offer subsidies for qualifying REITs authorised by the SFC and listed in Hong Kong in the coming three years to encourage the listing of more REITs in Hong Kong.

The subsidy will cover 70 per cent of the expenses paid to local professional service providers for the listing of REITs, subject to a cap of HK\$8 million per REIT. Further details will be announced by the SFC in due course.

Asset and wealth management

Since the establishment of the Open-ended Fund Company (OFC)⁵ and the Limited Partnership Fund (LPF)⁶ as choice of fund structures in Hong Kong, 11 OFCs and over 100 LPFs have been set up. The Financial Secretary states it is intended for legislative proposal to be introduced in the second quarter of 2021 to put in place law to allow foreign investment funds to redomicile to Hong Kong for registration as OFCs or LPFs.

⁴ [Hong Kong Government Green Bond Programme](#) to promote the development of green finance especially green bond market in Hong Kong

⁵ Refer to our previous updates on OFC:
<http://www.vteu.co/2016/07/20/update-on-fund-structures/>
<http://www.vteu.co/2018/07/30/hong-kong-open-ended-fund-company-comes-into-effect/>
<http://www.vteu.co/2020/09/26/enhancement-to-hong-kongs-open-ended-fund-company-structure/>

⁶ Refer to our previous updates on LPF:
<http://www.vteu.co/2020/07/11/hong-kong-limited-partnership-fund-structure/>

In addition, to encourage OFCs to be set up in Hong Kong, the Government plans to offer subsidies to cover 70 per cent of the expenses paid to local professional service providers for OFCs set up in or re-domiciled to Hong Kong in the coming three years, subject to a cap of HK\$1 million per OFC. Further details on the government subsidy on the expenses for establishing OFCs will be announced by the SFC in due course.

With respect to the amendment bill to provide tax concessions for carried interest issued by private equity funds operating in Hong Kong introduced to the Legislative Council on 3 February 2021, the Financial Secretary stated that the Government will strive to secure passage of the bill within the current session and for the tax concession arrangements to apply starting from 2020-21.

Family office business

To enhance Hong Kong's attractiveness as a family office hub, the Financial Secretary announced that InvestHK and different regulators will offer one-stop support services to family offices interested in establishing a presence in Hong Kong while the relevant tax arrangements will also be reviewed.

Start ups

The Financial Secretary noted that Hong Kong's start-up ecosystem has become increasingly vibrant. The number of start-ups have increased from around 1100 in 2014 to over 3300 last year, and investments from venture capital funds in Hong Kong also increased over seven times, from HK\$1.24 billion in 2014 to HK\$9.9 billion in 2019.

The Financial Secretary provided insights as to the various funds and initiatives to promote and support start-ups in Hong Kong, including the Innovation and Technology Venture Fund, which partners with venture capital funds to invest in local start-ups, the Corporate Venture Fund, which the Hong Kong Science and Technology Parks Corporation (**HKSTPC**) invests in technology enterprises through and the Cyberport Macro Fund set up by Cyberport. The Financial Secretary announced that HK\$350 million and HK\$200 million will be injected into the two aforementioned funds respectively and the scope of the funds will be extended to cover Series B and later stage investments.

Financial technology

There are now eight virtual banks, four virtual insurers, and one virtual asset trading platform which have been authorised or approved to operate in Hong Kong. Recognizing that the epidemic has sped up digital transformation in the financial market, and with a view to foster the development of more novel financial products, the Financial Secretary announced that the HKSTPC and Cyberport will collaborate with HKMA to attract more financial, technology or research institutes to set up laboratories in Hong Kong, with a focus on areas such as regulatory technology and cyber security.

In addition to the Fintech Proof-of-Concept Subsidy Scheme⁷ which was introduced to encourage

⁷ [Scheme](#) announced on 6 January 2021 by the Hong Kong Financial Services and the Treasury Bureau, which aims to encourage financial institutions including banks, insurance companies, securities firms and asset management companies to partner with FinTech companies, including start-ups, to conduct proof-of-concept projects on innovative financial service products, with a maximum grant of up to HK\$100,000 for each approved project. Administered by Cyberport, now open for applications from 26 February 2021.

traditional financial institutions to partner up with Fintech companies to develop innovative financial technologies, the HKMA is also considering enhancing its Fintech Supervisory Sandbox by providing “through-train” vetting and funding arrangements for promising Fintech solutions to reduce the time for the launch of innovative financial products in the market.

These measures aim to enhance the financial services industry through complementing the services of traditional financial institutions with cutting edge technologies.

Market Outlook

We welcome the various key measures in the Budget in support of the financial services industry.

In particular, we welcome the proposed initiatives and subsidies to encourage the set-up of OFCs, LPFs and listing of REITs in Hong Kong to further enhance Hong Kong’s status as a premier asset and wealth management as well as capital raising hub. We look forward to the announcements from SFC and the Government in these regards. It is also encouraging to see that the Government is developing and expanding its green and sustainable finance support and offerings in light of the growing importance and focus on ESG and sustainability globally.

In our firm’s recent publication⁸ on the trends and developments of the Hong Kong investment funds market, we covered extensively on Hong Kong’s unique position with respect to Mainland China, as a key international capital market and leading asset management centre, which are being enhanced with rapid legal and regulatory developments in recent years for Hong Kong to remain competitive as an attractive location to set up investment management business. Such measures include the new Hong Kong fund domicile structures offered along with tax incentives, which the Budget strongly demonstrates the government’s clear intention to further support with the government subsidy on OFCs and the tax concession for carried interest to be introduced very soon.

Besides the measures relevant to green finance, investment funds, fintech and financial services markets we outlined above, importantly, the Budget covered the Hong Kong government’s proposed relief measures from the impact of the Covid pandemic and for economic recovery. There is cause for optimism and confidence for Hong Kong to build back better, in Hong Kong’s ambition and efforts to be the global ESG investment hub of Asia and be a leader in the growing adoption of green and sustainable finance globally.

⁸ Chambers Practice Guide – Investment Funds 2021: Hong Kong Trends & Developments:
(<https://practiceguides.chambers.com/practice-guides/investment-funds-2021/hong-kong/trends-and-developments>)

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Vivien Teu & Co LLP is a Hong Kong corporate and commercial law firm with particular focus on investment funds, asset management and financial services, securities and regulatory, tax and trusts. The firm has been highly rated for technical ability and innovation, with its lawyers having in-depth Hong Kong and international legal practice experience, combined with deep and broad knowledge of China and regional markets.

The legal practice areas at Vivien Teu & Co LLP encompass providing corporate and commercial law advice, as well as on securities law and financial regulatory advice in local and international transactions, and typically a go-to firm for corporate transactions, funds formation and clients seeking legal and regulatory advice involving Mainland China and Hong Kong elements. The firm has gained a reputation of offering seamless support on cross-border Hong Kong and Mainland China matters in the areas of asset management, investment funds, cross-border securities and investments, inbound and outbound mergers & acquisitions, China market entry strategies.

Besides an enviable corporate and institutional client-base including global and regional investment management firms and financial institutions, the firm is also increasingly serving private clients and high net worth entrepreneurs, in its wider financial services, private wealth, tax and trusts practice. As a strong believer in responsible capital and social finance, the firm has strengthened the ESG and sustainability focus of its investment funds and corporate practice, as well as advising and working with family offices, charities, foundations and social enterprises in the areas of philanthropy and impact.

To better serve clients across markets (especially in cross-border matters) and to further pursue our focus on asset management, ESG and sustainable finance important to be connected globally, with effect from 15 March 2021, Vivien Teu and team will join [Dentons Hong Kong LLP](#) and the Dentons global network, and Vivien Teu & Co LLP will cease practice. Dentons is an international legal practice providing client services worldwide through its member firms and affiliates: <https://www.dentons.com/en>

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